

Message Text

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ACTION NEA-10

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TAGS: ECON EGEN EFIN

SUBJ: GOE COMMODITY SUBSIDY CUTS, COMPENSATION, PUBLICIZED

REF: CAIRO 13763

1. GOE IN RECENT DAYS HAS LAUNCHED FULL SCALE PRESS CAMPAIGN EXPLAINING ITS POSITION ON SUBSIDY CUST AND REASSURING POPULACE. ALTHOUGH STATING THAT NO FINAL DECISION HAS BEEN REACHED AND THAT "PEOPLE WILL TAKE PART IN SOLVING SUBSITY PROBLEM", AUGUST 20 LOCAL PRESS POINTS OUT THAT DIRECT SUBSIDIES HAVE RISEN FROM LE 6 MILLION IN 1960 TO J3 407 MILLION IN 1977. INDIRECT SUBSIDIES REPORTEDLY ARE DOUBLE THAT AMOUNT. PRESS LINKS SIZE OF SUBISIDIES WITH GALLOPING INFLATION AND ECONOMIC PROBLEMS FACING POPULATION.

2. OTHER ARTICLES FEATURE GOE CAMPAIGN TO BRING RUNAWAY PRICES UNDER CONTROL THROUGHT STRINGENT ENFORCEMENT OF COMPULSORY PRICES. ACCORDING TO PRESS, "STATE OF EMERGENCY" HAS BEEN DECLARED IN SUPPLY INVESTIGATIONS. POLICE FORCES IN CAIRO, GIZA AND ALEXANDRIA WILL ESTABLISH SPECIAL SUPPLY INVESTIGATION UNITS AT EACH POLICE STATION. SIZE OF INVESTIGATION FORCE WILL BE INCREASED "FOURFOLD" AND WILL BE FURNISHED MOTOR
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VEHICLES AND COMMUNICATIONS EQUIPMENT. SEVERAL PAPERS FEATURE PICTURES DEPINTERIOR MINISTER NABAWI MAKING SPOT CHECKS OF PRICES IN VARIOUS MARKETS.

3. PRESS AUGUST 22 REPORTS STATE SECURITY COURTS ARE TO BE FORMED TO CONSIDER VIOLATIONS OF FIXED PRICE STRUCTURE FOR COMMODITIES, ACCORDING MININFORMATION EL SAWI. DECISION

WAS ANNOUNCED FOLLOWING MEETING OF LOCAL GOVERNMENT MINISTERIAL COMMITTEE AT ALEXANDRIA CHAIRED BY PM SALEM. COMMITTEE REPORTEDLY DISCUSSED URGENTLY PRICE QUESTIONS AS THEY AFFECT INTERESTS OF "VAST MAJORITY" OF PEOPLE, WITH VIEW TO EFFECTIVE PRICE CONTROL AND IMPROVED DISTRIBUTION METHODS. AL AHRAH AND AL AKHBAR AUGUST 21 GAVE FRONT PAGE PROMINENCE TO GOE'S CAMPAIGN AGAINST RISING PRICES, NOTING GOVERNMENT CONTEMPLATES PROMULGATION OF NEW LAWS PROVIDING PENALTIES FOR PROFITEERING AND PRICE TAMPERING. OVER 500 PEOPLE CHARGED DURING FIRST THREE DAYS OF CAMPAIGN.

4. ALL PAPERS EMPHASIZE THAT GOE THINKING OF SOFTENING IMPACT OF SUBSIDY CUTS BY INCREASE IN WAGES OR OTHER MEASURES. PRESS TAKES PAINS TO POINT OUT THAT CRUCIAL BREAD AND TRANSPORT SUBSIDIES PROBABLY WILL REMAIN INTACT. FULL PUBLICITY HAS BEEN GIVEN TO WIDE RANGE OF FOREIGN ASSISTANCE BEING PROVIDED WHICH WILL BENEFIT CONSUMERS.

5. FACT THAT CAMPAIGN IS DELIBERATE AND MASSIVE, IF THERE HAD BEEN ANY DOUBT, IS BORNE OUT BY DEPRIMIN QAYSUNI'S BRIEF REMARKS TO AMBASSADOR AUGUST 22. QAYSUNI NOTED HE HAS SOME SLIGHT DIFFERENCE WITH PM SALEM ON ATTEMPT TO BALANCE SUBSIDY REDUCTION WITH SALARY INCREASES. NET EFFECT, HE THOUGHT WOULD BE INFLATIONARY. (QAYSUNI'S DIFFERENCE WITH SALEM REFLECTS FACT THAT HE VIEWING ISSUE AS ECONOMIST WHILE PM THINKING AS POLITICIAN.) NEVERTHELESS, QAYSUNI TOOK LIMITED OFFICIAL USE

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SATISFACTION THAT GOE THIS TIME IS PREPARING WAY PROPERLY FOR BUDGET REFLECTING SUBSIDY REDUCTIONS, UNLIKE LATE LAMENTED JANUARY PRESENTATION. HE NOTED THAT ACEPTICISM HAD BEEN EXPRESSED FOLLOWING RIOTS THAT SUBSIDY QUESTION EVER COULD BE ADDRESSED AND TOOK OCCASION OF TALK WITH AMBASSADOR TO POINT OUT GOE NONETHELESS IS NOW DOING JUST THAT.

6. COMMENT: GOE PRESS CAMPAIGN DOES INDEED APPEAR THIS TIME TO PRESAGE FIRM INTENT ON SUBSIDY REDUCTION. SPECIFICS NOT KNOWN, AND PLAN SUSCEPTIBLE TO REVISION, BUT AS RESULT CURRENT PROCESS EGYPT SHOULD BE ABLE DEMONSTRATE TO FOREIGN CREDITORS THAT IT IS MAKING ITS BEST EFFORT TO ADDRESS THIS THORNY ISSUE. EGYPTIANS ARE TRYING TO MEET IMF OBJECTIONS TO SUBSIDY SYSTEM IN CLEAR RECOGNITION THAT CURRENT STANDBY AGREEMENT EXPIRES AT END 1978 AND THEY WILL HAVE TO LOWER SIGNIFICANTLY SUBSIDY BILL IF THEY ARE TO OBTAIN EXTENDED FACILITY CREDITS. MEDIA TREATMENT DURING PAST WEEK SUGGESTS GOVERNMENT HAS BEGUN FOCUSING ON PRICE CONTROL ISSUE (EMPHASIZING OGRE OF GREEDY MERCHANTS) TO PROVIDE SCAPEGOAT TO WHOM BLAME CAN BE ATTRIBUTED WHEN GENERAL PRICE RISE FOLLOWS REMOVAL OF SUBSIDIES.

7. TIMING OF ANNOUNCEMENTS DICTATED TO AT LEAST SOME

EXTENT BY FY 1978 BUDGET CYCLE. HOWEVER, FACT THAT THIS OCCURRING WHILE STUDENTS ON VACATION AND MAJORITY OF POPULATION IN RAMADAN DOLDRUMS NOT ACCIDENTAL AND UNDOUBTEDLY KEYED TO MAINTAIN PUBLIC ORDER. GOE PROBABLY HOPES IDEA OF SUBSIDY CUTS WILL BE ACCEPTED BY TIME MORE VOLATILE ELEMENTS BACK IN ACTION.

8. WHETHER CURRENT GOE APPROACH ULTIMATELY WILL BE SUCCESSFUL REMAINS OPEN TO QUESTION. PROPOSED SALARY INCREASES NOTED REFTEL, DESIGNED TO OFFSET SUBSIDY REDUCTIONS, WILL BE DIFFICULT TO ENFORCE IN PRIVATE SECTOR AND WILL HAVE LITTLE EFFECT ON THOSE LIVING ON SOCIETY'S MARGINS. EFFORTS TO PRESSURE MERCHANTS TO OBSERVE PRICE CONTROLS MAY FORCE MANY CONTROLLED ITEMS OFF MARKET. MERCHANTS ARE ALREADY PLEADING INABILITY COMPLY IN VIEW COST OF OBTAINING SUPPLIES FROM MIDDLEMEN. PRESS REPORTS LIMITED OFFICIAL USE

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GOVERNMENT IS PREPARED FILL MIDDLEMAN ROLE, BUT IT DOUBTFUL EGYPTIAN BUREAUCRACY CAPABLE OF REPLACING FREE MARKET PROCUREMENT SYSTEM.

9. USE OF STATE SECURITY COURTS AND DELEGATION OF MILITARY POWERS TO GOVERNORS IN PRICE CAMPAIGN UNDOUBTEDLY MEANT TO CONVEY GOVERNMENT'S SERIOUSNESS ON THIS ISSUE. IMPLICIT LACK OF TRUST IN NORMAL JUDICIAL SYSTEM, HOWEVER, IS POTENTIALLY EMBARRASSING ADMISSION FOR REGIME BASED ON CREATION OF INSTITUTIONS.
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